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UNCLAS SECTION 01 OF 02 SANAA 003155

SIPDIS

STATE FOR INL AND NEA/ARP ROBERTS
JUSTICE FOR OIA AND AFMLS
TREASURY FOR FINCEN

SENSITIVE

E.O. 12958: N/A

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SUBJECT: YEMEN 2004-2005 INSCR REPORT

REF: SECSTATE 254401

11. (SBU) SANAA'S UPDATE FOR THE 2004-2005 INTERNATIONAL NARCOTICS CONTROL STRATEGY REPORT (INSCR) IS AT PARA TWO. COMMENT: SANAA NOTES NO SIGNIFICANT PROGRESS IN IMPLEMENTING THE 2003 MONEY LAUNDERING LAW, AND HAS TAKEN NO ACTION ON ENFORCING THE UNSCR 1267 SANCTIONS ON ABDUL MAJID ZINDANI. END COMMENT.

12. (U) The Yemeni financial system is not yet well developed. Thus, the extent of money laundering is not known. The prevalence of hawala makes Yemen vulnerable to money laundering, although they are technically subject to limited monitoring by the Central Bank of Yemen (CBY). The banking sector is relatively small with 17 commercial banks, including four Islamic banks. The Central Bank of Yemen (CBY) supervises the country's banks. Local banks account for approximately 62 percent of the total banking activities, while foreign banks cover the other 38 percent. Yemen is a founding member of the Middle East and North African Financial Action Task Force MENA_FATF established this year in Bahrain.

Yemen's parliament passed a comprehensive anti-money laundering legislation in April 2003. The legislation criminalizes money laundering for a wide range of crimes, including narcotics offenses, kidnapping, embezzlement, bribery, fraud, tax evasion, illegal arms trading, and money theft, and imposes penalties of three to five years of imprisonment. There is no specific legislation relating to counterterrorist financing in Yemen. But terrorism is covered in various pieces of legislation that treat terrorism and its financing as serious crimes. As of 2004 no significant changes or additions have been made to the anti-money laundering legislation and no persons have been prosecuted for money laundering. The Anti-money Laundering Committee prepared the draft executive bylaws, which have been forwarded to the cabinet for approval. - The committee prepared an anti-money laundering procedural directory, which will be distributed to all public and private financial institutions. The directory explains how to monitor and control laundering cases. The April 2003 law requires banks, financial institutions, and precious commodity dealers to verify the identity of persons and entities that desire to open accounts or deal with them, to keep records of transactions for up to ten years, and to report suspicious transactions. In addition, the law requires that reports be submitted to an information-gathering unit within the CBY. The unit acts as the financial intelligence unit (FIU), which in turn will report to the Anti-Money Laundering Committee (AMLC). The AMLC is composed of representatives from the Ministries of Finance, Justice, Interior, and Industry and Commerce, the CBY, and the board of banks, and is authorized to issue regulations and guidelines and provide training workshops related to combating money laundering efforts.

The CBY conducted several training workshops on the new legislation in 2003 and 2004. The law grants the AMLC the right to exchange information with foreign entities. The head of the committee can ask local judicial authorities to enforce foreign court verdicts based on reciprocity. Also, the law permits the extradition of non-Yemeni criminals in accordance with international treaties or bilateral agreements. Prior to passage of the anti-money laundering law, in April 2002, the CBY issued Circular 22008, informing banks and financial institutions that they must verify the legality of all proceeds deposited in or passing through the Yemeni banking system. The circular stipulates that financial institutions must positively identify the place of residence of all persons and businesses that establish relationships with them. The circular also requires that banks verify the identity of persons or entities that wish to transfer more than \$10,000 through banks at which they have no accounts. The same provision applies to beneficiaries of such transfers. Banks must also take every precaution when transactions appear suspicious, and report such activities to the CBY. The circular was distributed to the banks along with a copy of the Basel Committee's "Customer Due Diligence for Banks," concerning "Know Your Customer" procedures. In 2003, DHS/ICE agents in New York conducted an investigation of a company suspected to be involved in the smuggling and distribution of pseudoephedrine. The investigation disclosed employees at the business were sending a large number of negotiable checks to Sanaa, Yemen. Analysis of the documents seized as a result of search warrants and bank records revealed that the suspects had also wire transferred money to an individual with suspected ties to the al-Qaida organization. ICE

agents also initiated an investigation pursuant to an outbound seizure of suspected hawala generated funds seized en-route to Yemen, concealed in jars of honey. The investigation disclosed that the courier, and the reputed owner/broker of the funds, was actively involved in a hawala network.

In response to UNSCR 1267/1390/1452 and Yemen's Council of Ministers' directives, CBY issued a number of circulars to all banks operating in Yemen, directing them to freeze accounts of 144 persons, companies, and organizations, and to report any finding to CBY. As a result, one account was immediately frozen with a balance equal to \$33. In September 2003, the CBY issued Circular No. 75304 containing a consolidated list of all persons and entities belonging to al-Qaida (182) and the Taliban (153). The ROYG did not issue the circular again in 2004.

A law was passed in 2001 governing charitable organizations. This law entrusted the Ministry of Pensions and Social Affairs with overseeing their activities. The law also imposes penalties of fines and/or imprisonment on any society or its members convicted of carrying out activities or spending funds for other than the stated purpose for which the society in question was established. Yemen is a party to the 1988 UN Drug Convention and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime. Yemen is a party to the Arab Convention for the Suppression of Terrorism.

Yemen is making progress in enforcing its domestic anti-money laundering program. While passage of the 2003 law was a first step, development of the FIU and international cooperation with criminal investigations are still in the development stage. Since the February 2004 designation of Sheikh Abdul Majid Zindani by the United Nations under UNSCR resolution 1267 the ROYG has made no known attempt to enforce the sanctions. The CBY is still organizing its enforcement mechanism. Its effectiveness will demonstrate the authorities' commitment to ending money laundering. Yemen should also examine the prevalence of alternative remittance systems such as hawala and trade-based money laundering. As a next step, Yemen should also enact specific legislation with respect to terrorist financing and forfeiture of the assets of those suspected of terrorism. Yemen should become a party to the UN International Convention for the Suppression of the Financing of Terrorism.

End Text.

Krajeski